

CDM Highlights 44

January 2007

Monthly newsletter of the GTZ Climate Protection Programme (CaPP), written by Perspectives GmbH. Please send questions, comments or newsworthy items to climate@gtz.de

Editorial

Dear reader!

The EU Commission has provided a very positive post-2012 market signal by proclaiming a unilateral 20% reduction target. Moreover, the US market stirs and may generate huge demand for CERs. Thus, the feared slump in CDM project submissions is likely to disappear. Thailand has made the first approvals, ending an interminable period of waiting. China's project pipeline is continuing to expand at full steam. However, the secondary market may still be more than a year off due to a stringent interpretation of emissions trading by the UNFCCC Secretariat.

Anja Wucke, GTZ and Axel Michaelowa, Perspectives

UNFCCC, EB and its panels

The EB met from 12-15 December, taking the following decisions:

- The UNFCCC Secretariat sees CER delivery to companies other than project participants as emissions trading, which requires participating Annex B countries to fulfil the rules of Kyoto Protocol articles 5,7, and 8 (registries and definition of assigned amount). Countries will not be eligible for emissions trading until late 2007 at the earliest and for many of them it will more likely be early 2008.
- The UNFCCC Secretariat is closing the hiring of 20 new staff for support of the CDM EB.
- The Meth Panel met from 15-19 January, making the following recommendations
 - Approval of a methodology for dissemination of compact fluorescent lamps. While the monitoring requirements are complex, the project type is highly replicable
 - Approval of a methodology for biodiesel production from used cooking oil. This would be the first biofuel methodology, but its applicability is limited.
 - Biofuel projects have to be done on the producer level, and it is likely that there will be a thorough test whether the pre-project land use is shifted, leading to leakage

Designated National Authorities

- Iran, Uzbekistan, Malta and the Bahamas have notified their DNA. The Iran has a huge CDM potential, so may change the CDM supply map.
- More than two years after the first requests for approval were made, the Thai Cabinet (and thus also the DNA) has approved the first batch of seven projects.
- The Chinese DNA has publicly stated that its floor price for approving CDM projects is 8 Euro/CER
- Following the Indian example, the Chinese DNA has published official baseline emission factors for all Chinese regional grids. They are available at <http://cdm.ccchina.gov.cn/english/NewsInfo.asp?NewsId=1420>, albeit only in Chinese language and range from 571 g CO₂/kWh for the build margin to 1252 g CO₂/kWh for the operating margin.
- The Brazilian DNA has defined a procedure to revoke an approval letter if the project participants have committed "illegalities or acts contrary to the public interest". It remains to be seen how the EB reacts on this decision as hitherto approval letters were seen as non-revocable. Moreover, the DNA decided that the stakeholder consultation has to be done before validation starts. Project developers have to inform the DNA about the distribution of the CERs
- The Philippine DNA has made all necessary forms and guideline for project submission available online at www.cdmdna.emb.gov.ph/cdm/public/cdm-techResources.php?main=tech&sub=intro ; an exemplary step.

- The DNA host country approval hitlist stands at
 - India: 456 projects
 - China: 279 projects (+53). The new approvals include 6 gas power plants, 6 coal mine methane projects, 24 hydro, 2 biomass and 5 wind plants, 4 waste heat recovery projects, 2 agricultural waste and 1 landfill gas recovery. Total annual CER volume is estimated at 11.8 million per year of which 4.4 million come from the gas power plants and 2 million from CMM.
 - Mexico: 148 projects (+0)
 - Brazil: 111 projects (+2), one small hydro (6 MW) and one wind project (1.8 MW).
- The DNA investor country approval hitlist stands at
 - UK: 180 projects, 205 letters of approval. Total CER volume is estimated at 83 million.
 - Japan: 108 projects. Annual CER volume of approved projects is estimated at 47 million.

Designated Operational Entities

- Environmental Management Corp., EMC, from Korea, has applied to become a DOE.

Project developers

- Large new projects in the pipeline are
 - Biofuel from dedicated plantations (Plantar project, Brazil, 20.5 million CERs by 2012)
 - HFC-23 reduction (China, 17 million CERs by 2012)
 - Gas power plant (China, 7.7 million CERs by 2012)
 - Landfill gas recovery (China, 4.7 million CERs by 2012)
 - Waste gas use in steel plant (China, 3.8 million CERs by 2012)
- Strong competition is driving down prices for PDDs. Some consultancies ask for a price of about 10,000 \$ plus a success fee in the single digit range.
- German development bank KfW is following the World Bank in partnering with Indian IDBI bank to provide CDM services
- Indian HFC project operator SRF has generated 21 million Euros revenue for CER sales in 2006, more than 25% of the company's total revenues.
- State-owned Chinese Long Yuan Electric Power Group, which has a 30% share in the Chinese wind power market, is now routinely integrating CDM in its project development (21 of 29 projects currently under development)
- Morgan Stanley buys 38% of MGM International. MGM is estimating its claims on CERs at 60 million.
- Climate Change Capital is cooperating with Japanese trading house Mitsui on CDM project development, particularly in efficiency increase in industry.
- Trading Emissions has increased its CER portfolio by 2.4 million to 25.7 million
- AgCert's share price has nosedived by 25% in one day due to pessimistic assessment by investment bank Morgan Stanley which estimates that each pig farm will only generate 4000 CERs per year compared to an earlier estimate of 5500. Moreover, the total number of farms entering AgCert's portfolio in 2008 would be just 400 instead of 950.
- NGOs from 14 Asian countries met at the 5th Waste Not Asia (WNA) conference protested against waste incinerator projects in the CDM
- Malaysian consultancy Global Forestry Services (GFS) has set up a "Carbon Credit Support Programme" for CDM forestry projects to market its services

Incentives for CDM investment

- The EU Commission proposes that the EU reduces emissions by 30% from 1990 levels by 2020 if other countries participate in the post-2012 climate regime. Unexpectedly, the Commission proposes a unilateral reduction target of 20% if the post-2012 regime fails. This will bolster the CDM market, but it is likely that the Commission's proposal will be watered down by the Council and the European Parliament. The Commission also prefers a global trading scheme to a global carbon tax.
- In its verdicts on the National Allocation Plans of the Netherlands and Belgium, the Dutch CDM/JI cap was reduced to 10%.
- Germany announced an increase of its CDM/JI cap to 20%
- The Austrian environment ministry has announced an increase in the Austrian CER procurement by 10 million; the budget remains to be fixed. Austria has to close an emissions gap of over 30% to reach its Kyoto target. The Austrian CDM/JI programme has already contracted 26 million CERs

and ERUs (of which 7.1 and 3,4 million in 2006) and still need another 19 million to reach its acquisition target.

- The Swiss Climate Cent Foundation has now budgeted 130 million Euro for acquisition of 10 million CERs
- Aquila Capital, a German investment house is setting up a Climate Change Investment fund in Luxembourg with a target volume of 100 million Euro. A novel feature is a window for private investors, similar to the wind power investment funds popular in Germany. The fund will be managed by 3 C.
- The Italian investment house Eco-Way wants to set up a 100 million Euro carbon fund.
- The UK government may only accept companies in the voluntary offset standard scheme if they use CERs or ERUs, which is likely to increase CER demand as offset providers have been using less rigorous “verified emission reductions” in the past. However, final decisions on the standard remain to be taken.
- Philippine president Arroyo has asked Japan to increase demand for CERs from ASEAN countries
- The price differential between pre- and post-2008 EU allowances has widened to a factor of 7 (2.4 vs.16 Euros), showing the importance of a cap that actually binds.

Web news and downloads of the month

- Emission Reduction Purchase Agreement (ERPA): A sellers’ perspectives, available at: www.cdmdna.emb.gov.ph/cdm/secured/uploads/CDM1803195073306017_Emission_Reduction_Purchase_Agreement_ERPA_FINAL.pdf
- GHG Emission Reduction Monitoring and Reporting Guideline, available at: www.cdmdna.emb.gov.ph/cdm/secured/uploads/CDM1803195061511016_GHG_Emission_Reduction_Monitoring_and_Reporting_Guideline.pdf
- Heleen de Coninck, F. Haake and N. van der Linden: Technology transfer in the Clean Development Mechanism, download at <http://www.ecn.nl/publications/PdfFetch.aspx?nr=ECN-E--07-009>
- S. Bakker: CDM and biofuels. Can the CDM assist biofuel production and deployment?, download at: www.ecn.nl/publicaties/PdfFetch.aspx?nr=ECN-E--06-033

Other news

- More than 1000 participants have already registered for PointCarbon’s Carbon Market Insights fair at Copenhagen, March 13-15 which features a “stream” on the CDM. See <http://www.pointcarbon.com/Events/Carbon%20Market%20Insights/category401.html>. There are some free tickets for project developers with a large CDM project pipeline, contact Henriette Drolsum at hd@pointcarbon.com with supporting material.
- A large fair “CDM Tech 2007” is held in Cartagena, Colombia, March 19-21, organized by the Andean Center for Economics and the Environment. It has a novel feature bringing together producers of monitoring equipment and CDM project developers. For detailed information see <http://www.cdmttech2007.com/>
- UNIDO is hosting a seminar on Energy Efficiency Projects in CDM and JI in Vienna, March 19-20. Registration (free) at z.sheety@unido.org
- A workshop “Global and National Outlook on CDM and JI - Status and Challenges” will be held by the German Ministry of Environment and Wuppertal Institute at Terratec Fair, Leipzig, March 6-7. Registration (free) at www.wupperinst.org/de/kontakt/formular/anmeldung_terratec_workshop/index.html

Country of the month: USA

The USA is still formally not eligible to participate in the CDM as it has not ratified the Kyoto Protocol. However, the Democrats’ victory in the elections for Congress has unleashed a flurry of activity regarding climate policy. During January, four bills on mandatory climate policy instruments have been submitted in the Senate and the House. The most prominent one is the “Climate Stewardship and Innovation Act” sponsored by Democrat Lieberman and Republican McCain as well as supported by presidential candidates Hillary Clinton and Barack Obama. This bill proposes a cap and trade system for large emitters and transport, covering all greenhouse gases of the Kyoto Protocol basket and starting from 2012. The proposed caps are 2004 emissions for 2012, 1990 emissions for 2020, 22% below 1990 levels for 2030, and 60% below 1990 levels for 2050. CDM-type offsets would be included and the CDM principles have been taken on board in the exact wording of the Marrakech accords with

regards to voluntary participation, real and measurable emission reductions and additionality. Moreover, the text specifies that “the administrator shall ensure tradability of emission reductions earned under this program with reductions earned under other similar international programs”. Another bill, called “Global Warming Pollution Reduction Act” proposes a 1990 level target for 2020 and reduction by 80% by 2050 with a broad array of policies ranging from trading to automobile efficiency standards. It proposes “participation of the United States in agreements that establish flexible international mechanisms to minimize the cost of efforts by participating countries”. The international carbon consultancy business is thus eagerly getting into the US market while US companies are starting to get into the CDM market. For example, electricity utility AES is aiming to generate 1 billion CERs and is actively scouting the markets. A conference on carbon markets on Jan. 17-18 brought 600 investors, industry executives, government officials, and non-profit organizations to Washington. Both investors and policy analysts see greenhouse regulation at the federal level to be inevitable.

Number of the month

-20%: unilateral EU target.

CDM counter (as of January 28, 2007)

- Pending baseline methodologies: 48
 - of which forestry: 8
- Approved and published baseline methodologies: 50 (including 10 consolidated ones)
 - of which forestry: 5
- Notified DNAs: 118 (96 host countries, 22 buyer countries)
- Companies applying to become operational entity: 24
- Accredited operational entities: 17
 - Of which 5 for verification
- Projects currently open for public comments on PDD: 70
- Projects that are undergoing and have undergone the public comment period: 1125
 - Of which 77 have officially applied for registration
 - for 15 of which a request for review has been launched
 - Of which 5 have to make corrections
 - Of which 3 are undergoing review
 - Of which 11 have been rejected
 - Of which 3 have officially been withdrawn
- Expected CERs until 2012 from those projects: 999 million
 - Of which 64 million from those that officially applied for registration
 - Of which 6.4 million from projects with request for review and corrections requested
 - Of which 1.5 million from those undergoing review
 - Of which 8.7 million from rejected ones
- Registered projects: 488
 - expecting 737 million CERs by 2012
- Host countries: 36
- Buyer countries: 13
- Issued CERs: 28.5 million
- CER price: 5-6 Euro for medium-risk forwards, 7-8 Euro for low-risk forwards, 8-11 Euro for registered projects , 10-12 Euro for issued CERs

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Imprint

Responsible: GTZ Climate Protection Programme (CaPP), a project carried out on behalf of the German Federal Ministry for Economic Cooperation and Development

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